

**To:** 'George Marcus'[gjm@mcm-law.com]; 'Paul Hess'[paulehess@verizon.net]  
**Cc:** 'kalambiase@gmail.com'[kalambiase@gmail.com]; Brittany[britt\_napier@yahoo.com]  
**From:** Knetsch, Jeffrey M.  
**Sent:** Wed 5/4/2016 11:29:05 AM  
**Importance:** Normal  
**Subject:** RE: Two more questions for you and Jeff  
[image001.jpg](#)

The right to convert to Affinity's preferred units is in the operating agreement, must have been important to someone at one time. Obviously without knowing more about Affinity a noteholder has no way to evaluate that option.

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**From:** George Marcus [mailto:gjm@mcm-law.com]  
**Sent:** Wednesday, May 04, 2016 8:13 AM  
**To:** Knetsch, Jeffrey M.; 'Paul Hess'  
**Cc:** 'kalambiase@gmail.com'; Brittany  
**Subject:** RE: Two more questions for you and Jeff

Jeff has it right. I don't understand the question regarding Affinity Holdings, LLC. It holds only common Class A units of MDO, LLC. In fact, at this time, it is the sole Class A common unit holder. It holds no notes; no preferred units, no conversion rights.

In general, neither Kris nor Paul should be discussing any of this with any noteholder. A noteholder is free to consult with its own counsel, tax advisors, or other appropriate persons. Neither Paul nor Kris are appropriate persons to communicate with noteholders; and they are not authorized by Brentwood Investments, LLC to do so.

Thank you. Geo.

Description: George J Marcus Esq

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**From:** Knetsch, Jeffrey M. [<mailto:JKnetsch@BHFS.com>]  
**Sent:** Tuesday, May 03, 2016 7:56 PM  
**To:** 'Paul Hess' <[paulehess@verizon.net](mailto:paulehess@verizon.net)>  
**Cc:** 'kalambiase@gmail.com' <[kalambiase@gmail.com](mailto:kalambiase@gmail.com)>; Brittany <[britt\\_napier@yahoo.com](mailto:britt_napier@yahoo.com)>; George Marcus <[gjm@mcm-law.com](mailto:gjm@mcm-law.com)>  
**Subject:** RE: Two more questions for you and Jeff

The Preferred Units are much more valuable than the Common Units. Some of the terms of the Preferred (all from the operating agreement) are below.

Payment Priority. Whenever MDO makes a distribution to members, all of the distribution goes to the Preferred Holders until they have received 3 times the purchase price of the Preferred Units plus a return of 8% on that amount. After that, all units, including the Preferred Units, share the remaining distributions pro rata based on the number of Units owned.

Conversion Right to Affinity Holding, LLC preferred units—I don't understand the significance of that, maybe George can help. Does Affinity have other assets? It has some governance rights in the MDO operating agreement, but one of our noteholders would presumably be a very small equity holder of Affinity and have no ability to control those decisions. Why would it be better to own Affinity equity instead of MDO equity?

Down Round Financing Protection. If MDO sells new equity for less than approximately \$0.46 per unit, each Preferred Unit holder gets issued new

Preferred Units valued at the difference in value between pricing that holder's Preferred Units at \$0.46 and at the lower sales price of the new equity. The Common does not have this protection. Noteholders will not capture any of this value unless they already own Preferred Units at the time new equity is issued for below \$0.46 per unit.

Preemptive Rights. All Unitholders (common and preferred) have the right to buy their pro rata share of future MDO equity issuances. Noteholders cannot take advantage of this unless they already own Preferred Units.

Obviously for people whose Notes have not matured there is no special reason this week to convert, and converting obviously has the consequences you recite. You are right, the noteholders can convert if a liquidity event comes along. Unless we include an estimate of what a Preferred Unit is worth today, a Noteholder cannot make a rational decision. Maybe someone should ask MVO if they have done any company valuations lately, and we can pass that amount on to the Noteholders, being careful to attribute it solely to MVO and not Brentwood. Thoughts from Britt or George?

Jeff

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**From:** Paul Hess [<mailto:paulehess@verizon.net>]  
**Sent:** Tuesday, May 03, 2016 9:42 AM  
**To:** Knetsch, Jeffrey M.  
**Cc:** Kris Lambiase  
**Subject:** Re: Two more questions for you and Jeff

Hi Jeffrey,

A number of good questions have come up from the investors and until I get some reasonable answers, many of the conversions will not get done.

1. The original conversion back in 2012 was from Mozido Invesco LLC and the investors converted to "common units" (AKA Class B units) of Mozido LLC, which is now called MDO LLC. They converted at \$0.167 per unit. At that point their original promissory note ended and so did their Liberty personal guarantee and their 5% interest. I managed to get everyone on that list to convert to the common units, but this time it is four years later and people are far less inclined to simply convert because the offer is on the table.
2. This new conversion offer is for the 4% coupon Brentwood Convertible Promissory Notes that also have the Liberty personal guarantee. But this time the conversion is for "preferred units" and the conversion price is at \$0.062 per unit which is obviously a far lower conversion price per unit.
3. So the first question is > how do the two securities compare? Are the essentially the same thing but just labeled differently? Do people have something close to the same value for their dollars converted? I suppose the price per unit doesn't matter as long as people get equivalent value.
4. Next, I am told not to solicit people to convert, but please realize that these are all my friends and family referrals who are calling or emailing me night and day to try to understand if they should do this. A key question is > why would anyone convert from a founder-guaranteed 4% coupon guaranteed-convertible promissory note into pure equity units that have no guarantee and no interest? The feeling is that they now have the guarantee and the interest, whereas the units don't have those features, AND if a liquidity offer comes along they could always just convert at the time and get the best of all worlds.
5. Would it ever be fair to tell people that if they don't convert, they could miss out on the upcoming expected liquidity event? If I can tell people that they can keep their notes (or even get them extended) but if a liquidity offer comes along it will only be made to those holding units at the time, AND that anyone holding convertible promissory notes will not be able to convert in time to take advantage of the offer, then the whole thing can get done overnight. But obviously I have to be accurate and give out the right information.

If you can help me with these things, I would greatly appreciate it, or if not, I would greatly appreciate your telling me where I can find these answers.  
Thanks Jeff.

Paul Hess CFP

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On Apr 27, 2016, at 2:35 PM, Knetsch, Jeffrey M. <[JKnetsch@BHFS.com](mailto:JKnetsch@BHFS.com)> wrote:

No, the MDO LLC Operating Agreement permits both Common and Preferred Units, they have different rights.

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**From:** Paul Hess [<mailto:paulehess@verizon.net>]

**Sent:** Wednesday, April 27, 2016 12:31 PM  
**To:** Knetsch, Jeffrey M.  
**Cc:** Britt Napier; Kris Lambiase  
**Subject:** Re: Two more questions for you and Jeff

And are these the same exact securities as the original MDO LLC (formerly Mozido LLC) common units that were converted from Mozido LLC convertible promissory notes? My understanding is that those were referred to as common units and not preferred units.

thanks Paul

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On Apr 27, 2016, at 2:15 PM, Knetsch, Jeffrey M.  
<[JKnetsch@BHFS.com](mailto:JKnetsch@BHFS.com)> wrote:

The Brentwood notes are convertible into Preferred Units of MDO.  
Transfer of those Units will be subject to the transfer restrictions in the  
MDO Operating Agreement

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**From:** Paul Hess [<mailto:paulehess@verizon.net>]  
**Sent:** Wednesday, April 27, 2016 12:10 PM  
**To:** Britt Napier  
**Cc:** Knetsch, Jeffrey M.; Kris Lambiase  
**Subject:** Re: Two more questions for you and Jeff

Another question please, in addition to the same one that Britt just asked...

May these unit holders sell their positions to other people, at whatever price they agree upon? Thanks Paul

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On Apr 27, 2016, at 2:00 PM, Brittany <britt\_napier@yahoo.com> wrote:

Jeff, the Brentwood note holders can convert into preferred units, not common units?

On Apr 27, 2016, at 1:09 PM, Knetsch, Jeffrey M. <JKnetsch@BHFS.com> wrote:

See responses below.

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**From:** Brittany [mailto:britt\_napier@yahoo.com]  
**Sent:** Wednesday, April 27, 2016 10:57 AM  
**To:** Knetsch, Jeffrey M.  
**Subject:** Fwd: Two more questions for you and Jeff

Begin forwarded message:

**From:** Paul Hess <[paulehess@verizon.net](mailto:paulehess@verizon.net)>  
**Date:** April 27, 2016 at 12:55:41 PM EDT  
**To:** Britt Napier <[britt\\_napier@yahoo.com](mailto:britt_napier@yahoo.com)>  
**Cc:** Kris Lambiase <[kalambiase@gmail.com](mailto:kalambiase@gmail.com)>  
**Subject:** Two more questions for you and Jeff

Hi Britt

I don't have Jeff's email so will send these questions through you:

1. Since once converted the Brentwood notes are to be classified as "common units" of MDO LLC, and these common units are able to be subdivided as the various owners see fit, does this mean that the original common units (the ones converted from Mozido Invesco LLC into MDO LLC common units) may also be divided in the same manner? **YES**
2. When people divide up these units, may we assume that all resulting owners now do not need to be accredited investors? **MEMBERS OF AN LLC THAT HOLDS A NOTE NEEDED TO BE ACCREDITED WHEN THE LLC BOUGHT THE NOTE; IF THOSE MEMBERS DIVIDE THEIR MDO EQUITY AMONG FAMILY MEMBERS, TRUSTS, ETC. AS LONG AS THOSE ARE GIFTS (AND NOT PAID FOR BY THE RECIPIENT) THE RECIPIENTS DO NOT NEED TO BE ACCREDITED.**

To help get this all done, my office can help with the paperwork and can get the instructions from every investor so it is all organized and in a consistent format. This will involve my creating a letter-of-instruction for each investor who wishes to gift/sub-divide their positions. Do you want us to help with that?

Another issue has come up a few times and that is the question of how each note-holder is required to report interest income from the notes. Are we going to get any kind of opinion or instructions about this or is it up to each individual investor and their tax preparer? ***YOU SHOULD REFER THEM TO THEIR OWN ACCOUNTANT OR TAX ADVISOR.***

Thanks Britt! Paul

Paul Hess CFP

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